

VZCZCXYZ0021
RR RUEHWEB

DE RUEHBO #5330 1642224
ZNR UUUUU ZZH CCY ADXE1TEFO MSI9280 612
R 132224Z JUN 06
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC 5902
INFO RUEHBR/AMEMBASSY BRASILIA 6908
RUEHCV/AMEMBASSY CARACAS 7848
RUEHLP/AMEMBASSY LA PAZ JUN LIMA 3915
RUEHZP/AMEMBASSY PANAMA 9254
RUEHQD/AMEMBASSY QUITO 4560
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BOGOTA 005330

SIPDIS
C O R R E C T E D C O P Y //P A R A G R A P H 4 S E C O N D S E N T E N C E

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [CO](#)
SUBJECT: COLOMBIA'S STOCK MARKET - BACK WHERE WE STARTED IN
2005

¶1. Colombia's stock market index (IGBC) has fallen more than 30 percent between May 2 and June 12, 2006. On June 8, the index fell 9.47 percent, and on June 12 trading was halted 15 minutes before the closing bell because of a more than 10 percent loss in the value of the index. Overall, the index has dropped to pre-December 2005 numbers, which are still 3 times greater than 2003 figures. Economists and brokers alike expressed surprise at the rapid decline of the index, given current positive economic conditions in Colombia. Throughout the 2005 boom, Central Bankers predicted the market could react negatively to changes in international economic conditions (especially related to U.S. interest rate trends). Colombia's economic indicators remain strong.

¶2. Throughout 2005, the IGBC ranked among the top five world-wide on return on investment as rated by the Bloomberg Company. The index is made up of the 34 most traded companies, including the banking, construction, and petroleum sectors. Experts attribute the majority of the 2005 gains to the market dynamics surrounding the sale of the Bavaria brewery to SAB Miller and to the privatization of ColTabaco and the Granahorrar bank. In 2003, the index began near 2000 point level, but by the end of 2004, the index had more than doubled in value to over 4000 points on positive economic news and national security gains. The index doubled again in 2005, ending the year over 9500. The index reached its highest level in March of 2006 at 11,094. According to Mauricio Botero, former president of the stock exchange, the volume of trading has grown significantly over the past five years. In 2001, trading totaled between two and three million dollars in volume per day compared with the 50 to 60 million-dollar per day averages in April 2006.

Monthly average index and value of shares traded

| MONTH | Index | Value of Shares Traded (VST) |
|--------|----------|------------------------------|
| 05 Jun | 5563.57 | 776 mln |
| 05 Jul | 6240.39 | 823 mln |
| 05 Aug | 6708.01 | 2.1 bln |
| 05 Sep | 6918.76 | 1.6 bln |
| 05 Oct | 7195.11 | 535 mln |
| 05 Nov | 8600.61 | 7.9 bln |
| 05 Dec | 9513.25 | 19.0 bln |
| 06 Jan | 11094.93 | 15.4 bln |
| 06 Feb | 11080.24 | 6.9 bln |
| 06 Mar | 11094.64 | 3.7 bln |
| 06 Apr | 11076.22 | 1.7 bln |
| 06 May | 9045.16 | 2.7 bln |

| DATE | Index | VST | Percent Change |
|-----------|-------|--------|----------------|
| 06 01 Jun | 9061 | 23 mln | 0.177 |
| 06 02 Jun | 9122 | 43 mln | 0.672 |
| 06 05 Jun | 9100 | 20 mln | - 0.233 |
| 06 06 Jun | 8821 | 27 mln | - 3.070 |
| 06 07 Jun | 8214 | 48 mln | - 6.882 |
| 06 08 Jun | 7435 | 35 mln | - 9.478 |
| 06 09 Jun | 7538 | 39 mln | 1.383 |
| 06 12 Jun | 6749 | 52 mln | -10.463 |

(xchange rate: 2300 COP = 1 USD)

¶3. Well before the recent downturn, the executive director of the Central Bank expressed concern that the U.S. Federal Reserve's inflation targeting measures would eventually move foreign investment capital away from emerging markets. This appears to be happening across the Colombian economy, as stocks, bonds, and the peso have all taken hits over the past three months. Colombia's overall economic health is strong, however. A steadily declining unemployment rate (16 percent in January 06 falling to 12.7 percent in April 06), consistently low inflation (near 4 percent) and a growing GDP (around 5 percent) indicate the economy is still doing well. Now we will have to see if the capital market turbulence is a disruptive factor in the "real" economy.

¶4. Comment: The Colombian capital markets are thinly traded and more volatile than larger markets. Moreover, price earnings and capital value to equity ratios had climbed to stratospheric levels in early 2006. A correction was almost inevitable and rising U.S. interest rates with falling global markets were the catalysts for revaluation of Colombian equities.

DRUCKER